

Message Text

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ACTION SS-25

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 1911

C O N F I D E N T I A L MEXICO 11159

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EXDIS

FOR ARA ROGERS FROM AMBASSADOR JOVA

E.O. 11652: GDS

TAGS: EAID, EIND, MX

SUBJECT: IDB DAIRY LOAN

REF: 294842

1. I CAN UNDERSTAND YOUR CONCERN AT THIS APPARENT BACK CHANNEL APPROACH TO GOM. I WAS AWAY AT THE TIME BUT ALSO GREW CONCERNED THAT ECHEVERRIA MIGHT DRAW CONCLUSION THAT WHILE YOU AND I SPOKE POLITELY TO HIM, ONCE AGAIN, AND IN HIS MIND PERHAPS BY DESIGN, A BACK CHANNEL PURPORTEDLY PERSONAL MESSAGE WITH CONSIDERABLY STRONGER BITE WAS BEING EMPLOYED. I AM SATISFIED HOWEVER THAT DAMAGE IF ANY HAS BEEN LIMITED.

2. HERE IS THE BACKGROUND AS I HAVE RECONSTRUCTED IT:
AS YOU KNOW, WE WERE ON SOMETHING OF A COLLISION COURSE WITH THE MEXICANS MAINTAINING THE ITEM ON THE AGENDA FOR DEC. 18. I BELIEVE THE ALTERNATIVES OF THE US VOTING EITHER AGAINST THE LOAN OR FOR THE LOAN WITH ALL ITS IMPERFECTIONS PRESENTED GREATER POTENTIAL THREATS TO OUR RELATIONS WITH MEXICO AND LATIN AMERICA. AS IT IS, THE PROBLEM HAS BEEN MERELY POSTPONED, NOT SOLVED.

3. WHAT HAS APPARENTLY BEEN SOLVED IS TO SEPARATE IN
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TIME THE DAIRY LOAN FROM THE TREASURY SWAP RENEWAL. ANY

HITCH ON THE RENEWAL OF THE SWAP COULD HAVE DISASTROUS EFFECTS UNDER PRESENT CONDITIONS ON MEXICAN EFFORTS TO MAINTAIN THE STABILITY OF THE PESO. THE MEXICAN FINANCIAL COMMUNITY IS WELL AWARE THAT THE SWAP RESELL IS DUE

THIS MONTH; RELUCTANCE IN THE PART OF THE US TO RENEW WOULD HAVE BEEN ATTRIBUTED TO LACK OF US CONFIDENCE IN THE PESO. THE NEWS WOULD HAVE HAD TO HAVE BEEN MADE PUBLIC IN FEBRUARY.

4. IT IS, OF COURSE, UNFORTUNATE THAT THE SAME TREASURY OFFICIALS ARE RESPONSIBLE FOR BOTH ISSUES. WITHOUT ADDRESSING MYSELF TO THE WASHINGTON END, I AM SATISFIED THAT THE TREASURY ATTACHE HAS ACTED PROPERLY. BUSHNELL APPARENTLY TOLD HIM THAT HE WOULD HAVE DIFFICULTY IN MAINTAINING HIS PLANS TO COME TO MEXICO ON DECEMBER 19 "IN A GENEROUS MOOD" TO WORK OUT THE SWAP IF THE DAIRY LOAN WAS PUSHED TO A VOTE ON DECEMBER 18. BUSHNELL SAID THAT A CABLE HAS BEEN PREPARED FOR SECRETARY SIMON'S RETURN ON THE 14TH INSTRUCTING THE EMBASSY TO CONVEY THIS UNCONGENIAL NEWS TO GOM AT THE HIGHEST LEVELS. I AM TOLD THAT WHILE BUSHNELL AND ATTACHE DISCUSSED INFORMING SOME APPROPRIATE OFFICIAL OF A POSSIBLE PROBLEM, BUSHNELL DID NOT SPECIFICALLY INSTRUCT THE ATTACHE TO MAKE A DEMARCHE.

5. THE TREASURY ATTACHE REPORTED ALL THIS PLUS HIS DESIRE TO CALL ON FERNANDEZ HURTADO (BANK OF MEXICO) TO THE EMBASSY E/C COUNSELOR, WHO WAS THE ONLY OTHER SENIOR OFFICER IN THE EMBASSY FAMILIAR WITH THE BACKGROUND OF THE ISSUE. (I WAS, AS YOU KNOW, IN NEW ORLEANS AND MATAMOROS.) IN VIEW OF THE ABOVE POINTS, AND GIVEN THE EMBASSY'S AND TREASURY'S CLOSE RELATIONSHIP WITH FERNANDEZ HURTADO, IT WAS CONSIDERED ADVANTAGEOUS TO GIVE FERNANDEZ HURTADO A PRIVATE AND PERSONAL INSIGHT AND INDEED RISKY NOT TO DO SO.

6. PASCOE'S CALL ON FERNANDEZ AT 4:30 P.M. ON MONDAY WAS MADE WITH THE SPECIFIC UNDERSTANDING THAT IT WAS TO BE NO MORE THAN AN INFORMAL TRANSMISSION OF TREASURY CONFIDENTIAL

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VIEWS, AND THAT FERNANDEZ WAS NOT TO BE ASKED TO BE THE CHANNEL TO ANYONE ELSE. THIS WAS DONE, PLUS POINTING OUT SPECIFICALLY THAT IF ANY FORMAL REPRESENTATIONS WERE MADE IT WOULD BE BY AMBASSADOR TO APPROPRIATE GOM OFFICIAL. FERNANDEZ, WHO UNDERSTANDS PERFECTLY THE RELATIVE RESPONSIBILITIES OF THE VARIOUS WASHINGTON AGENCIES IN THESE MATTERS, SAID HE THOUGHT DAIRY LOAN ISSUE HAD BEEN SOLVED. FERNANDEZ SAID ALSO THAT HE VIEWED THE CONCLUSION OF A

SUCCESSFUL SWAP AGREEMENT AS OF PRIMORDIAL IMPORTANCE,
AND WOULD CALL FINANCE MINISTER BETETA.

7. ON MY RETURN, FERNANDEZ HURTADO CALLED ME TO SAY
THAT AS A RESULT OF PASCOE'S CONVERSATION, BETETA HAD
SPOKEN TO PRESIDENT ECHEVERRIA AND INSTRUCTIONS HAD
BEEN GIVEN TO MEXICAN DELEGATE TO IDB TO WITHDRAW DAIRY
LOAN FROM CONSIDERATION FOR THE TIME BEING IN ORDER
THAT IT MIGHT BE PRESENTED DURING THE NEXT CALENDAR YEAR,
IN THE REALIZATION THAT THIS MIGHT AFFECT OTHER INTERESTS
THAT ARE OF HIGH IMPORTANCE TO MEXICO. I THANKED HURTADO
SAYING THIS WAS A STEP IN THE RIGHT DIRECTION BUT ONLY
REGRETTED THAT IT MIGHT APPEAR TO HAVE BEEN LINKED
DIRECTLY TO THE SWAP AND I HOPED THAT THE PRESIDENT WOULD
NOT THINK THAT WE ARE PRESSURING HIM IN THIS MATTER, AS
THIS COULD NOT HELP BUT BE EMBARRASSING TO BOTH YOU AND
TO ME IN VIEW OF OUR PREVIOUS CONVERSATION WITH THE
PRESIDENT WHO HAD AGREED TO REFORMULATE THE LOAN TO MAKE
IT MORE SATISFACTORY. I HOPED THE PRESIDENT WOULD NOT
THINK WE ARE USING BLACKMAIL TACTICS. HURTADO AGREED
THAT IT WAS IMPORTANT TO MAKE THIS CLEAR TO THE
PRESIDENT AND WOULD UNDERTAKE TO SEE THAT IT WAS DONE.
SUBSEQUENTLY, HURTADO CALLED ME BACK TO SAY THAT BETETA
HAS ASKED HIM TO ASSURE ME THAT HE HAD HANDLED THE
MATTER SKILLFULLY, NOT LINKING THE DAIRY LOAN DIRECTLY
TO THE BUSHNELL VISIT. THE PRESIDENT HAD AT ONCE REFERRED
TO HIS BREAKFAST CONVERSATION WITH YOU AND TO HIS PROMISE
TO MAKE IT MORE ACCESSIBLE TO SMALL DAIRY FARMERS AND
AND IN MANY OTHER WAYS.

8. I THINK WE HAVE ATTAINED A GOOD END RESULT
AS DESPITE PRESIDENT'S ASSURANCES TO US, THE WORD
NEVER SEEMED TO REACH HIS MAN ON THE IDB, AND AT THE
SAME TIME, BETETA'S ASSURANCES SEEMED TO INDICATE THAT
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DAMAGE, IF ANY, HAS IN FACT BEEN LIMITED. I WOULD
HOPE THAT AS THE LOAN IS REFORMULATED THE
PRECEDENTS SPELLED OUT TO ME BY ORTIZ MENA MAY BE
FOLLOWED, I.E., THAT THERE AT NO POINT BE A FLAT TURN-
DOWN BUT THAT AT A SERIES OF MEETINGS QUESTIONS
CAN BE RAISED ON STRICT POINTS UNTIL IT GRADUALLY
TURNS INTO A MORE SATISFACTORY SHAPE. THIS WOULD
PREVENT ANY ABRUPT TURNDOWNS AND ALSO AFFORD OPPORTUNITIES
FOR NEGOTIATION OF DIFFICULT POINTS AND SHOULD LEAD TO
A MUCH BETTER LOAN AND OUR SUBSEQUENT APPROVAL. AGAIN,
I ASSERTED HOWEVER, THAT WE KEEP IN MIND THAT
"LO PERFECTOR ES EL ENEMIGO DE LOS BUENO" AND OUR REP-
RESENTATIVE NOT BE CARRIED AWAY BY OVER ZEALOUSNESS IN
OBTAINING A PERFECTION THAT IS RARELY, IF EVER,
ENCOUNTERED, ESPECIALLY IN THE IDB.

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